

Message Text

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ACTION EB-07

INFO OCT-01 AF-08 EUR-12 EA-07 NEA-10 IO-13 ISO-00 L-03

FRB-03 OMB-01 ITC-01 SP-02 USIA-06 AGRE-00 AID-05

CIAE-00 COME-00 INR-07 LAB-04 NSAE-00 OIC-02 SIL-01

STR-04 TRSE-00 CIEP-01 CEA-01 GSA-01 /100 W

-----101744Z 125467 /43

P R 101706Z JAN 77

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 9300

INFO USMISSION GENEVA

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AMEMBASSY KUALA LUMPUR

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FOR: EB/ISM - MR. KOBLER

E.O. 11652: N/A

TAGS: EPAP

SUBJECT: RUBBER -- SUMMARY OF UNCTAD SCHEME

REFERENCE: (A) THIGPEN/HEWITT TELCON (B) LONDON 93

1. AS REQUESTED, SUMMARIZED BELOW IS UNCTAD PAPER TD/B/IPC/RUBBER/L.2, DECEMBER 1976, ENTITLED "CONSIDERATION OF INTERNATIONAL MEASURES ON RUBBER". WORD, "DRAFT" HAS BEEN INKED IN ON COVER. PAPER, OBTAINED FROM INTERNATIONAL RUBBER STUDY GROUP, HAS BEEN POUCHED TO LIMITED OFFICIAL USE

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DEPARTMENT.

2. IN 15 PAGES OF TEXT, PAPER OUTLINES A SCHEME WHICH SEEMS TO GO CONSIDERABLY BEYOND THE RECENT ANRPC AGREEMENT. PROPOSAL IS MODELED CLOSELY ON THE INTERNATIONAL TIN AGREEMENT (ITA). AS IRSG SEC GEN BATEMAN POINTED OUT, IT IS COMPLEX AND CONTAINS MUCH THAT IS CONTENT-

IOUS. IT IS NOT AN OPTIONS PAPER BUT A FAIRLY DETAILED PROPOSAL FOR A COMPLETE SYSTEM. AS SUCH, IF USED AS A BASIS OF DISCUSSION AT GENEVA, IT WILL CLEARLY CHANNEL DELIBERATIONS IN A SPECIFIED DIRECTION. NEVERTHELESS, IT DESERVES CLOSE READING. PARTICULARLY AS REGARDS COMPETITIVENESS BETWEEN NATURAL RUBBER (NR) AND SYNTHETIC RUBBER (SR), THE PAPER SUGGESTS AREAS WHERE DEEPER STUDY AND ANALYSIS ARE REQUIRED.

3. PAPER IS DIVIDED INTO THREE CHAPTERS: INTRODUCTION, OBJECTIVES AND INTERNATIONAL MEASURES AND TECHNIQUES. INTRODUCTION REVIEWS RESOLUTION 93(IV), CONCLUDING THAT A BUFFER STOCK SYSTEM WOULD BE THE MOST EFFICIENT WAY TO STABILIZE NR PRICES. THIS CHAPTER THEN PROVIDES A BACKGROUND SKETCH ON THE WORLD NR ECONOMY. COMPARING NR WITH SR, CHAPTER NOTES MORE RAPID OUTPUT FOR SR (10.6 PER CENT) IN COMPARISON TO NR (3.2 PER CENT) SINCE 1948 AND CONSEQUENT STEEP DECLINE IN NR'S MARKET SHARE. THE INTRODUCTION CONCLUDES WITH A SECTION ENTITLED "NEED FOR INTERNATIONAL ACTION" WHICH POINTS TO SERIOUS PROBLEM OF NR PRICE INSTABILITY AND NOTES BRIEFLY VARIOUS ATTEMPTS TO DEAL WITH PROBLEM, INCLUDING MOST RECENT ANRPC SCHEME, AND, FINALLY, THAT RESOLUTION 93(IV) PROVIDES GOVERNMENTS "WITH AN OPPORTUNITY TO MOVE TOWARDS THE NEGOTIATION OF SUCH AN INTERNATIONAL AGREEMENT ON NR".

4. CHAPTER 2 "OBJECTIVES", REITERATES OBJECTIVES LISTED IN RESOLUTION 93(IV), POINTING OUT MOST IMPORTANT ONE LIMITED OFFICIAL USE

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SHOULD BE TO IMPROVE AND SUSTAIN REAL INCOME OF LDCS FROM COMMODITY EXPORTS. NEXT SENTENCE, HOWEVER, MODIFIES THIS BY RECOGNITION OF LIMITATIONS ON NR CREATED BY COMPETITION WITH SR.

5. ANALYSIS OF NR POSITION IN RELATION TO SR NOTES INCREASING COST OF PETRO-CHEMICAL FEEDSTOCKS SHOULD IMPROVE NR'S COMPETITIVENESS. THREE BASIC OBJECTIVES ARE LISTED FOR NR: (A) INCREASING UPSTREAM PROCESSING (AND MARKET ACCESS FOR RESULTING INDUSTRIALIZED PRODUCTS); (B) IMPROVING MARKET STRUCTURES AND MARKETING; AND (C) IMPROVING COMPETITIVE POSITION OF NR VIS-A-VIS SR.

6. PRICE OBJECTIVES: PAPER NOTES PRICE INSTABILITY IS A MAJOR REASON IN NR'S LACK OF COMPETITIVENESS, ADDING THAT THE PRIMARY OBJECTIVE SHOULD BE TO STABILIZE NR PRICES AT A COMPETITIVE LEVEL WITH SR. AT THIS POINT PAPER POINTS OUT NEED TO KNOW MORE ABOUT SR PRODUCTION COSTS BEFORE SETTING NR PRICE RANGES.

7. TWO PRIMARY SUPPLY OBJECTIVES LISTED ARE: TO
IMPROVE THE CONTINUITY OF NR SUPPLIES, AND TO ENSURE THAT
"OVER THE LONG RUN SUFFICIENT SUPPLIES ARE AVAILABLE AT
PRICES COMPETITIVE WITH SR". FINAL PARAGRAPHS OF
CHAPTER II EXAMINE PROPOSITION OF INCREASING PROCESSING

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-----101743Z 125513 /43

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IN PRODUCING COUNTRIES, WITH SUGGESTION THAT A FUTURE
AGREEMENT SHOULD CONTAIN MEASURES (UNSPECIFIED) TO
PROMOTE THIS, AND CALLS FOR INCREASED CO-OPERATION
BETWEEN NR AND SR PRODUCERS. LATTER THOUGHT SEEMS
CLOSE TO INDUSTRIAL CARTELS PHILOSOPHY IN THAT PAPER
SUGGESTS BOTH NR AND SR COULD BENEFIT THROUGH CO-
OPERATION AND INFORMATION EXCHANGE TO AVOID "UNHEALTHY

TRADING PRACTICES", E.G. PRICE UNDERCUTTING, DUMPING.
PAPER SAYS AGREEMENT SHOULD CONTAIN PROVISIONS TO
PREVENT "SUCH UNHEALTHY PRACTICES".
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8. CHAPTER III OUTLINES BASICS OF SCHEME AND REPEATS MUCH THAT HAS BEEN SAID BEFORE IN PAPER. SINCE PRICE INSTABILITY DERIVES PRIMARILY FROM FLUCTUATIONS IN DEMAND, NR IS PARTICULARLY SUITED TO BUFFER-STOCK TYPE COMMODITY AGREEMENT. A BUFFER STOCK WITH ADEQUATE RESOURCES COULD ACHIEVE ITS MARKET OBJECTIVE, PAPER CONTENTS, WITH IMMEDIATE EFFECT AND WITHOUT UNDULY RESTRICTING TRADE. RECOGNIZING THAT STOCKING SYSTEMS MAY TAKE DIFFERING FORMS, UNCTAD OPTS FOR AN INTER-NATIONALLY OPERATED BUFFER STOCK, AND SCHEME IS BUILT ON THIS PREMISE WITHOUT CONSIDERATION IN DETAIL OF POSSIBLE OTHER METHODS (I.E. NATIONALLY-OWNED AND HELD STOCKS).

9. IN THIS AND OTHER WAYS, UNCTAD'S SCHEME RESEMBLES THE ITA. FIRST LINE OF PRICE DEFENSE WOULD BE BUFFER STOCK, WITH THREE BANDS, AN UPPER WHERE MANAGER WOULD SELL, A MID-BAND, WHERE MANAGER NORMALLY WOULD NOT INTERVENE AND A LOWER, "BUY" BAND. SECOND LINE OF DEFENSE WOULD BE A SYSTEM OF EXPORT CONTROLS. PAPER SUGGESTS NR MIGHT OFFER A RARE OPPORTUNITY FOR SOME CONSUMER PROTECTION IN THAT NR YIELDS CAN BE INCREASED RAPIDLY BY USE OF YIELD STIMULANTS.

10. REGARDING STOCK SIZE, PAPER SAYS RESULTS OF UNCTAD STUDIES HAVE VARIED FROM SUGGESTING 375,000 TO 664,000 TONS, WITH MOST RECENT CONCLUSION (TENTATIVE) THAT WITH PROPER SUPPLY MANAGEMENT TECHNIQUES, 450,000 METRIC TONS WOULD BE SUFFICIENT TO STABILIZE PRICES. MOST RECENT STUDIES HAVE INVOLVED USE OF ECONOMETRIC MODEL. THE 664,000 FIGURE ASSUMED HOLDING PRICE AT \$816 PER TON, PLUS, MINUS 10 PER CENT PRICE VARIATION, WITH 95 PER CENT PROBABILITY OF SUCCESS.

11. REGARDING LOCATION OF BUFFER STOCK, UNCTAD BELIEVES
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STOCKS SHOULD BE HELD AT MAJOR MARKETS, I.E. KUALA LUMPUR/SINGAPORE, LONDON AND NEW YORK. ONLY MAJOR GRADES SHOULD BE STOCKED, PERHAPS, RSS 1, RSS 3, RSS 4 AND

CRUMP RUBBER GRADES 5, L0 AND 20. PAPER NOTES HOWEVER,
THIS TOO IS AREA REQUIRING MORE STUDY.

12. PRICE RANGE CEILING SHOULD BE BASED ON SR, WITH
FLOOR SOME 20 PER CENT BELOW. PAPER EXPLAINS RANGES
SHOULD BE PERIODICALLY ADJUSTED IN ACCORDANCE WITH
CHANGES IN PRODUCTION COSTS OF SR, EXCHANGE RATE CHANGES
, AND WORLD INFLATION. AVOIDING TERM, INDEXATION, PAPER
GOES ON TO SUGGEST IT MIGHT BE EASIER TO DO THIS "TO
ALLOW PRICE CHANGES TO BE MADE AUTOMATICALLY, AT REGULAR
INTERVALS, ACCORDING TO AN AGREED FORMULA WHICH WOULD
TAKE INTO ACCOUNT MOVEMENTS IN THE COSTS OF PRODUCTION
OF SR, EXCHANGE RATES, AND WORLD INFLATION".

13. OTHER RECOMMENDATIONS ARE THAT A SYSTEM OF "MULTI-
LATERAL PURCHASE AND SUPPLY COMMITMENTS SHOULD BE
INCLUDED IN THE AGREEMENT (BORROWING FROM RECENT SUGAR
AGREEMENT PROPOSALS), WITH THE FORMER PROVIDING FOR
SPECIFIED QUANTITIES OF PROCESSED RUBBER. THIS SUGGESTS
NEED FOR MORE FAVORABLE TRAFFIC TREATMENT, EVEN, THAN
UNDER EXISTING GSP AND OTHER SCHEMES. ONE SLEEPER
INTRODUCED IS THE SUGGESTION THAT GOVERNMENTS "COULD
ALSO UNDERTAKE TO GUIDE THEIR SR INDUSTRIES SO AS TO
ENSURE THAT EXPANSION OF THEIR SR CAPACITY DOES NOT HAVE
DETRIMENTAL EFFECTS ON NR". PAPER BRIEFLY DEALS WITH
NEED TO IMPROVE NR RESEARCH AND DEVELOPMENT.

14. CONCLUDING PARAGRAPHS CONSIDER FINANCIAL REQUIRE-
MENTS. FOR A 450,000 TON STOCK, UNCTAD SUGGESTS A
VALUE AT FLOOR PRICE FROM \$330 MILLION TO \$350 MILLION,
DEPENDING UPON PRICE CRITERIA, I.E. WHETHER MID-POINT OF
RANGE IS \$816 OR \$864 PER TON. FINANCING, UNCTAD THINKS
, "SHOULD BE SHARED EQUITABLY" BETWEEN PRODUCERS AND
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Message Attributes

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Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
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Executive Order: N/A
Errors: N/A
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Original Handling Restrictions: n/a
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Retention: 0
Review Action: RELEASED, APPROVED
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Review Event:
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Review Media Identifier:
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Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3633761
Secure: OPEN
Status: NATIVE
Subject: RUBBER -- SUMMARY OF UNCTAD SCHEME
TAGS: EPAP, ETRD, IRSG
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/e3f5b6db-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009